CHAPTER 7

7-000 Contract Types

7-101 Fixed-Price Contracts (FAR 16.201)

Fixed-price contracts provide for a firm-fixed-price or an adjustable price for the performance of a contract. An adjustable price may include a ceiling price, target price (including target cost), or both.

7-102 Firm-Fixed-Price (FFP) Contracts (FAR 16.202)

a. The firm-fixed-price contract provides for a price which cannot be adjusted because of the cost experience of the contractor in performing the contract.

b. Firm-fixed-price contracts are suitable for acquiring commercial items (see FAR Parts 2 and 12) or for acquiring other supplies or services on the basis of reasonably definite functional or detailed specifications (see FAR Part 11) and when the contracting officer can establish fair and reasonable prices at the outset.

7-103 Fixed-Price Contracts with Economic Price Adjustment (FAR 16.203)

a. The fixed-price contract with economic price adjustment provides for the revision of contract price upon the occurrence of contingencies specifically defined in the contract. There are three general types (1) adjustments based on established prices, (2) adjustments based on actual costs of labor or material, and (3) adjustments based on cost indexes of labor or material.

b. This contract type is applicable to circumstances where (1) serious doubts exist as to the stability of market or labor conditions that will exist during an extended period of contract performance, and (2) contingencies that would otherwise be included in the contract price can be identified and covered separately in the contract.

7-104 Fixed-Price Incentive Contracts (FAR 16.204)

The fixed-price-incentive (FPI) contract provides for adjusting profit according to a formula based on the relationship of final negotiated total cost to total target cost. There are two types of FPI contracts, firm target and successive targets (see 7-104.1 and 7-104.2 below).

7-104.1 Fixed-Price Incentive (Firm Target) Contracts (FAR 16.403-1)

a. In a fixed-price incentive (firm target) contract, the following items are negotiated: (1) target cost, (2) target profit, (3) price ceiling (but not a profit ceiling or floor), and (4) percentage sharing formula for establishing final profit and price.

b. After performance of the contract, final costs are negotiated and the contract price is established by using the formula. If the final costs are less than the target costs, then the application of the percentage sharing formula will yield a final profit greater than the target profit; conversely, when final cost is more than target cost, application of the formula results in a final profit less than the target profit, or even a net loss. If the final negotiated cost exceeds the price ceiling, the contractor absorbs the difference as a loss.

c. This contract type is applicable when FFP contracts are inappropriate and it is desirable for the contractor to assume some cost responsibility, and when a firm target and a formula can be negotiated at the outset.

7-104.2 Fixed-Price Incentive (Successive Target) Contracts (FAR 16.403-2)

a. A fixed-price incentive (successive target) contract is an incentive contract that operates in the same way as an FPI (firm target) contract except that one or more revisions in the target cost and target profit may be made during performance.

b. This contract is applicable under the same circumstances as the FPI (firm target) contract except that realistic firm targets cannot be negotiated at the outset.

7-105 Fixed-Price Contracts with Award Fees (FAR 16.404)

a. Fixed-priced award fee contracts establish a fixed price, which includes normal profit, to be paid for satisfactory contract performance. An award fee earned will be paid in addition to the fixed price. The contract will provide for periodic evaluation of the contractor's performance against an award-fee plan.

b. Contracting officers may use award fees when they want to motivate a contractor since other incentives cannot be used when contractor performance cannot be objectively measured.

7-106 Fixed-Price Contracts with Prospective Price Redetermination (FAR 16.205)

a. A fixed-price contract with prospective price redetermination provides for: (1) a firm-fixed price for an initial period of contract deliveries or performance, and (2) prospective redetermination, at a stated time or times during performance, of the price for subsequent periods of time.

b. This contract type is applicable for acquisitions of quantity production or services for which it is possible to negotiate a fair and reasonable firm-fixed-price for an initial period, but not for subsequent periods of contract performance.

7-107 Fixed-Ceiling-Price with Retroactive Price Redetermination Contracts (FAR 16.206)

a. A fixed-ceiling-price with retroactive price redetermination contract provides for a ceiling price and retroactive price redetermination within the ceiling after completion of the contract. The redetermined price takes into consideration management effectiveness and ingenuity.

b. This contract type is appropriate for research and development contracts estimated at $100,000 or less when a fair firm-fixed-price cannot be established and the amount involved and short performance period make the use of any other fixed-price contract type impracticable.

7-108 Firm-Fixed-Price, Level of Effort Term Contracts (FAR 16.207)

a. The firm-fixed-price, level of effort term contract has strict limitations. The contract generally is used for studying a specific research and development area with a report as the final product. It specifies the contract performance in general terms, and obligates the contractor to devote a specified level of effort over a stated period of time for a fixed-price. The price is based on effort expended, not results achieved.

b. This contract type may be used only when the following conditions are met: (1) the work to be performed cannot be clearly defined, (2) the desired level of effort can be agreed upon in advance of performance, (3) it is reasonably probable that the goal cannot be achieved with an expenditure of less than the stipulated effort, and (4) the contract price does not exceed $100,000, except with approval of the chief of the contracting office.

7-201 Cost-Reimbursement Contracts (FAR 16.301)

Cost-reimbursement contracts provide for payment of the allowable costs incurred in contract performance, to the extent prescribed in the contract. An estimate of total cost is established so that the Government can obligate funds. The estimate is also used to establish a ceiling, or limit, on the amount of costs that the contractor may incur without the contracting officer approval and that the contractor exceeds (at his own risk). Cost-reimbursement contracts may be used only when uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use any type of fixed-price contract.

7-202 Cost Contracts (FAR 16.302)

a. Cost contracts are cost-reimbursement contracts under which the contractor receives no fee. Only costs incurred in the performance of the contract are paid.

b. This contract type is often used in research and development, particularly with nonprofit organizations, or in facilities contracts.

7-203 Cost-Sharing Contracts (FAR 16.303)

a. The cost-sharing contract is a cost-reimbursement contract in which the contractor is reimbursed only for an agreed portion of its allowable costs and receives no fee.

b. This contract type is frequently used for research and development contracts with private companies which stand to benefit from the projects.

7-204 Cost-Plus-Incentive-Fee (CPIF) Contracts (FAR 16.304; FAR 16.405-1)

a. The cost-plus-incentive-fee contract is a cost-reimbursement contract which provides for a fee which is adjusted by formula according to the relationship of total allowable costs to target costs. A target cost, target fee, minimum and maximum fee, and fee adjustment formula are negotiated at the outset. The fee is adjusted after contract performance, using the formula and the maximum and minimum fee limitations.

b. This contract type is appropriate when a cost-reimbursement contract is permissible and a target cost and a fee adjustment formula likely to motivate effective contract performance can be negotiated. (See FAR 16.404-1(b))

7-205 Cost-Plus-Award-Fee (CPAF) Contracts (FAR 16.305; FAR 16.405-2))

a. The cost-plus-award-fee contract is a cost-reimbursement contract with special fee provisions. The fee has two parts: (1) a fixed portion; and (2) an amount to be awarded for excellence in specific contract areas, such as quality, timeliness, ingenuity, and cost effectiveness, as determined by the Government.

b. This contract type is appropriate when achievement is measurable only by subjective evaluation rather than objective data.

7-206 Cost-Plus-Fixed-Fee (CPFF) Contracts (FAR 16.306)

a. The cost-plus-fixed-fee contract is a cost-reimbursement contract that provides for a payment of allowable costs plus a fixed fee. A cost-plus-fixed-fee may take one of two basic forms - completion or term.

b. The completion form describes the scope of work by stating a definite goal or target and specifying an end product. This form of contract normally requires the contractor to complete and deliver the specified end product (e.g., a final report of research accomplishing the goal or target) within the estimated cost, if possible, as a condition for payment of the entire fixed fee. However, in the event the work cannot be completed within the estimated cost, the Government may require more effort without increase in fee, provided the Government increases the estimated amount to cover the increase in estimated cost.

c. The term form describes the scope of work in general terms and obligates the contractor to devote a specified level of effort for a stated time period. Under the term form, if the performance is considered satisfactory by the Government, the fixed fee is payable at the expiration of the agreed-upon period upon contractor certification that the level of effort specified in the contract has been expended in performing the contract work. Renewal for further periods of performance is a new acquisition that involves new cost and fee arrangements.

d. The term type contract is generally used for research and development procurements of such complexity that the cost of performance cannot be reasonably estimated.

7-301 Indefinite-Delivery Contracts (FAR 16.500, 16.501-1, 16.501-2)

a. Indefinite-delivery contracts may be used to acquire supplies and/or services when the exact times and/or exact quantities of future deliveries are not known at the time of contract award. This allows the government to maintain a minimum amount of stock and to direct ship to users. There are three types of indefinite-delivery contracts: (1) definite-quantity contracts, (2) requirements contracts, and (3) indefinite-quantity contracts.

b. A delivery order contract is a contract for supplies that does not require a firm quantity of supplies, other than a minimum or maximum quantity, and that provides for the issuance of orders for the delivery of supplies during the period of performance. A task order contract is a contract for services that does not require a firm quantity of services, other than a minimum or maximum quantity, and that provides for the issuance of orders for the performance of tasks during the period of the contract.

7-302 Definite-Quantity Contracts (FAR 16.502)

a. A definite-quantity contract provides for delivery of a definite quantity of specific supplies or services for a fixed period, with deliveries or performance to be scheduled at designated locations upon order.

b. A definite-quantity contract may be used when the contracting officer can determine in advance that (1) a definite quantity of supplies or services will be required and (2) the supplies or services are regularly available or will be available after a short lead time.

7-303 Requirements Contracts (FAR 16.503)

a. A requirements contract provides for ordering from the contractor all actual purchase requirements for supplies or services.

b. A requirements contract may be appropriate for acquiring any supplies or services when the government anticipates recurring requirements but cannot predetermine the precise quantities of supplies or services the designated government activities will need during a definite period. The contracting officer will state a realistic estimated total quantity in the solicitation and the resulting contract. If feasible, the contract will state the maximum limit of the contractor's obligation to deliver and the government's obligation to order. The contract may also specify minimum or maximum quantities that the government may order, under each individual order, during a specified period of time.

7-304 Indefinite-Quantity Contracts (FAR 16.504)

a. An indefinite-quantity contract provides for an indefinite quantity with stated limits of supplies or services during a fixed period.

b. A contract must require the government to order and the contractor to furnish at least a stated minimum quantity of supplies or services. The contracting officer should establish a reasonable maximum quantity for the contract in total.

7-305 Time and Materials Contracts (FAR 16.601)

a. The time and materials contract provides for payment based on (1) direct and indirect labor, paid at specified labor rates; and (2) materials paid at cost. Material handling costs may be included, if appropriate. These contracts must include a ceiling price.

b. This contract type may be used only if no other contract type is suitable. It would typically be used for service rather than product procurements. It may be appropriate when the extent of labor required or the costs cannot be anticipated at the outset.

7-306 Labor-Hour Contracts (FAR 16.602)

The labor-hour contract is similar to the time and materials contract except that materials are not supplied by the contractor. Price is based on specified fixed labor hour rates.

7-307 Letter Contracts (FAR 16.603)

a. The letter contract is a written preliminary agreement to commence performance on a contract with the requirement that a definitive price be established, usually within 6 months of the date of the letter contract (FAR 16.603-2(c)(3)).

b. The letter contract may be used when procurement needs are urgent and time is not available to negotiate or advertise a procurement.

7-308 Basic Agreements (FAR 16.702)

a. A basic agreement is not a contract. It is a written understanding that sets forth certain clauses that will be applicable to future contracts awarded to a contractor. The basic agreement provides uniform treatment of specific items under several contracts awarded to one contractor. It simplifies the negotiation of future contracts.

b. This agreement may be used if the Government and the contractor are likely to enter into several contracts for specific items over a period of a year or more.